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GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE

WASHINGTON, D.C. 20301



MEMORANDUM FOR SECRETARY OF DEFENSE

SUBJECT: TOW Missile Transfer Pricing - INFORMATION MEMORANDUM

(U) The DAIG is investigating all the facts and circumstances concerning the TOW missile transfer. The investigation is not yet complete, but the facts presently known are set forth below.

(S) The initial request on January 18, 1986 was for a Basic TOW missile, (BGM-71A) (NSN 1410-00-087-1521). The Army quoted a price of \$3,169, which was correct for the BGM-71A. On or about January 26 the request was modified to require "Condition Code A" missiles (Basic TOW with Missile Ordnance Inhibit Circuit (MOIC), a safety device). The Army's cost of adding a MOIC to a 71A was \$300 per missile. The price to be charged was therefore changed to \$3,469. However, the Army had no MOICs in stock and could not effect the modification. Instead, the Army could fulfill the request only by providing another basic TOW (BGM-71A2) which already included a MOIC. Further repricing was either not considered, or was rejected (investigating to determine which), because the MOIC was seen as the only significant difference between the 71A and the 71A2. However, the 71A2 (NSN 1410-01-139-1512) had been built later than the 71A, and had a price of \$8,435 in January 1986. 1508 units shipped. Undercharge: \$7,488,728.

(S) The last 500 missiles shipped were I-TOWs that were converted to Basic TOWs with extended range, BGM-71A1 (NSN 1410-01-007-2507) by exchanging warheads, because not enough BGM-71A2s were available. The same price of \$3,469 was charged for these missiles because of the same error described above. (The correct price for the BGM-71A1 was \$8,435.) The \$300/unit charge for MOICs in this transfer was an error in the Army's favor, because these missiles were inadvertently provided without MOICs. 500 units shipped. Undercharge: \$2,333,000. Total undercharge: \$9,821,728. (Undercharges approximate; certain associated costs still under review.)

SUMMARY (S)

BGM 71A TOTAL MISSILES REQUESTED - 4508
TOTAL MISSILES SHIPPED - 2008

<u>BGM 71A2 (Basic TOW)</u>	
Prepared	2008
Shipped	1508
In Storage	500

<u>BGM 71C (I-TOW) converted to BGM 71A1 (w/o MOIC)</u>	
Prepared	2500
Shipped	500
In Storage	2000

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H. Lawrence Garrett, III

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